

Annual Report, 1978 Division of Insurance

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Michael S. Dukakis
Governor of Massachusetts

James M. Stone
Commissioner of Insurance

Massachusetts Division of Insurance

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Progress Report

This was a year of consolidation in Massachusetts automobile insurance markets, following several years of significant structural change. The Division of Insurance took advantage of the relatively calm public policy environment to act on a number of matters deferred from 1977. The reorganization of the Division is now complete. The personnel complement stands at 217 versus 309 in the beginning of 1975. The fiscal 1979 budget is 10% below the fiscal 1975 budget for Division administration. The number of CPA's, attorneys, actuaries, Ph.D's and MBA's on the staff is approximately five times the equivalent number in 1975.

In addition to the normal work of the Division, important steps were taken in the following areas during 1978:

I. Casualty Insurance Rate Review

There being no court action or legislative controversy over automobile insurance this year, the principal tasks of the Division in

that line involved implementation or extension of the new classification approach announced in 1977. Division representatives were asked to testify in New York, New Jersey, Pennsylvania, Illinois, Texas, Florida and other states on the advantages of individual incentive based classifications over the traditional statistical grouping classifications. In setting the 1979 rates, the Division further developed the incentive concept by allowing a discount of 10% on property damage liability and collision coverages for regular pre-paid users of public transit commuting systems. Territorial rate differentials were further attenuated for 1979 by limiting the agency commission allowance differentials in the rate. The 1979 commission allowances will vary only between a specified minimum and maximum payment.

Rates for 1979 automobile insurance will be 2% below this year's rates on a statewide average basis. This gives Massachusetts a four year average increase of 2.8% per year, as opposed to an average annual consumer price index change of 6.2%. Boston is no longer the highest rated city in the nation. Premium rates for many urban drivers with clean records, in fact, have fallen over the last four years. Only drivers with merit surcharges have received large increases.

There were no major issues concerning rates for workers' compensation, homeowners or other casualty coverages during 1978.

II. Examination and Enforcement Activities

The Division continued its recent emphasis on targeted investigations of licensee market conduct during 1978. Primarily as a result of inquiries into urban casualty insurance overcharges and into the sales of dubious health insurance products to the elderly, numerous licensees were subject to suspensions or revocations during the year. Restitution payments in these cases have now exceeded two million dollars.

During the fall of 1978, the Division initiated four intensive market conduct audits of companies selling dread disease policies in the Commonwealth. These audits, conducted jointly by outside CPA firms, attorneys, and Division examiners, have indicated numerous violations of Massachusetts laws and regulations. Disciplinary proceedings, and possible legislative recommendations, are presently being prepared on the basis of the audits.

III. Rules and Regulations

In the last session of the General Court, legislation was passed authorizing the formation of pre-paid legal service plans in the Commonwealth. The Division has prepared regulations under the statute to safeguard plan solvency and subscriber protection when such programs are initiated.

Licenses for the operation of more than half a dozen health maintenance organizations have now been issued under 1977 Division regulations. After a lengthy hearing and initial license denial, the first independent practice HMO agreed to meet Division standards and was granted a license.

In May, the Division issued a regulation governing the licensure and conduct of motor vehicle damage appraisers. The rules are designed to eliminate widely perceived abuses and conflicts of interest currently adding unnecessarily to the cost of automobile insurance.

The 1977 readable policy law mandates that every policy sold in Massachusetts after June of 1979 be written in clear non-technical language and contain a meaningful summary of the coverage. The Division devoted considerable time in 1978 to preparation of standards under the new law. Particular emphasis is being given to health insurance and life insurance. Current drafts of the proposed standards for health insurers would greatly simplify coverage terms, while those for life insurance would introduce a rate of return disclosure requirement for all cash-value policies.

IV. Publications

To further educate consumers on complex insurance purchase choices and to record the technical advances produced by Division research, a number of publications were prepared and issued in 1978. In keeping with recent tradition, the Division produced a 1979 version of its annual automobile insurance buyers guide. It also produced and widely distributed a booklet entitled Insuring Your Health: A Guide to Buying and Using Health Insurance Policies. A complete compilation of this Administration's formal findings was published as a series of volumes of Regulations and Decisions. The five 1977 research papers of the State Rating Bureau on automobile insurance classifications and the portions of the 1978 rate decision dealing with that subject were published in book form as Automobile Insurance Risk Classification: Equity and Accuracy.

At the close of the term, the four year history of the Division during this administration was summarized in a two volume publication entitled Management Report: The Massachusetts Division of Insurance from 1975 to 1978.

Copies of all of these publications are available from the Division or the State Bookstore.

Laws, Regulations & Decisions

LAWS

In 1978 the General Court passed, and the Governor approved, the following acts of legislation, which have a direct effect on the insurance business in Massachusetts. The number identifying each act is the chapter number assigned to it during the 1978 session of the General Court.

Chap. 63, increasing insurance coverage on certain professional boxers.

Chap. 90, facilitating the payment of certain claims under two thousand dollars to estates by insurance companies.

Chap. 132, further defining automobile club service contract.

Chap. 133, extending the hospital lien law to include health maintenance organizations and non-profit hospital, medical and dental service corporations.

Chap. 260, relative to the insurance coverage of the surviving spouse of an employee or retired employee of certain governmental units.

Chap. 271, relative to insolvent insurance companies.

Chap. 341, further regulating deferred compensation programs for public employees.

Chap. 358, prohibiting certain exclusions in insurance policies or health and welfare fund contracts relating to certain expenses incurred by an insured in a soldiers' home of the Commonwealth.

Chap. 361, providing for prior public hearing and approval of rates charged directly to subscribers by contract commonly known as Medex.

Chap. 402, further regulating the compensation of certain officers of medical and nonprofit hospital service corporations.

Chap. 424, providing that claims for medical benefits may be heard at a conference.

Chap. 425, increasing the funeral benefits for certain deceased employees under the Workmen's Compensation Act.

Chap. 431, increasing the membership of the board of directors of the medical malpractice joint underwriting association.

Chap. 440, mandating that fire and casualty insurance companies may not require of agents and brokers payment of accounts current earlier than fifty days of the close of the month in which such fire and casualty policies are written or effective date of the policy.

Chap. 446, regulating contracts of insurance against losses by fire and providing for increased cooperation between insurance companies and law enforcement agencies in the investigation of such losses.

Chap. 461, increasing benefits for dependents of deceased employees under the Workmen's Compensation Act.

Chap. 511, relative to motor vehicle rates charged to motorists age 65 and over.

Chap. 512, establishing a claims and indemnity procedure for the Commonwealth, its municipalities, counties and districts and the officers and employees thereof.

Chap. 574, relative to the services provided by medical service corporations.

REGULATIONS

To complement the laws governing insurance, the Massachusetts Division of Insurance used its statutory authority to issue rules and regulations. The rules and regulations adopted or repealed in 1978 are shown below, in the order in which they were acted upon.

Regulation 3-74, regarding insurance issued pursuant to a group marketing plan (repealed).

Regulation 2-75, regarding equal employment opportunity in the insurance industry (repealed).

Regulation 2-78, regarding the Massachusetts automobile insurance table of short rate values.

Emergency Regulation 3-78, regarding the Standard Merit Rating Plan.

Regulation 1-78, regarding the appraisal and repair of damaged motor vehicles.

Regulation 3-78, regarding the Standard Merit Rating Plan.

Regulation 4-78, regarding reductions in premium charges for private passenger motor vehicles and certain commercial motor vehicles equipped with an anti-theft mechanism as authorized by Section 4(d) of Chapter 175E of the Massachusetts General Laws.

Regulation 5-78, regarding procedural rules for disciplinary hearings.

DECISIONS

Statutes also give the insurance commissioner the power to hold hearings to determine the condition of the insurance marketplace, and, in some instances, to set rates. These decisions were issued after due notice and hearing:

Opinion, Findings, and Decision on workers' compensation rates.

Opinion, Findings, and Decision concerning revisions in Medex rates to be effective April 1, 1978 filed by Blue Cross of Massachusetts, Inc. and Blue Shield of Massachusetts, Inc.

Decision concerning Crum and Forster's auto insurance rate deviation.

Opinion, Decision, and Order concerning the amendment to Rule 2 and proposed Rules 18A and Rule 19A as filed by the Massachusetts Motor Vehicle Reinsurance Facility.

Opinion, Findings and Decision on 1978 medical malpractice insurance rates.

Approval of a general revision of workers' compensation rates to be effective April 1, 1978.

Opinion, Decision, and Order concerning amendments to Rules 2 and 6 and proposed Rule 3A as filed by Massachusetts Motor Vehicle Reinsurance Facility.

Opinion, Decision and Order concerning the proposed amendment to Rule 6 as filed by the Massachusetts Motor Vehicle Reinsurance Facility.

Decision on proposed accident and health rate requested by four insurance companies of the Commercial Union group.

Opinion, Decision and Order concerning the proposed amendment to Rule 6 as filed by the Massachusetts Motor Vehicle Reinsurance Facility.

Opinion, Findings and Decision on the operation of competition among motor vehicle insurers.

Findings and Conclusions on proposed homeowners rates requested by Prudential Property and Casualty Insurance Company.

Opinion, Findings and Decision on the application of Bay State Health Care Foundation, Inc., to be licensed as a health maintenance organization under General Laws, Chapter 176G.

Opinion, Findings and Decision concerning Blue Shield non-group Plan J rates.

Decision and Order concerning the proposed amendment to Rule 20 filed by the Massachusetts Motor Vehicle Reinsurance Facility.

Decision on the application of Central Massachusetts Health

Care, Inc., to be licensed by the Division of Insurance pursuant to General Laws, Chapter 176G.

Opinion, Findings and Decision on 1979 Medical Malpractice Rates.

Opinion, Findings and Decision on 1979 Automobile Insurance Rates.

Approval of a revision of workers' compensation rates to be effective December 1, 1978.

The Division also issued decisions or agreed to consent orders in the following cases of alleged misconduct by agents, brokers, companies and other miscellaneous matters.

Re: Appeal of the Allstate Insurance Co. from rulings of the Massachusetts Motor Vehicle Reinsurance Facility Governing Committee.

Re: Appeal of the Commercial Union Assurance Cos. from rulings of the Massachusetts Motor Vehicle Reinsurance Facility Governing Committee.

Re: James H. Slovin Ins. Agency, Inc. and James H. Slovin.

Re: Appeal of the Newton Pierce Ins. Agency, Inc. from rulings of the Massachusetts Motor Vehicle Reinsurance Facility Governing Committee.

Re: B.S. Costello, Inc. v. Workers' Compensation Rating and Inspection Bureau of Massachusetts.

Re: Bobbie J. Graham, d/b/a Bobbie J. Graham Ins. Agency.

Re: Elmer J. Bruce, Jr. and E.J. Bruce Ins. Agency, Inc.

Re: H.J. Realty v. Lyness.

Re: Guarantee Trust Life Ins. Co. (consent order).

Re: United Equitable Ins. Co. (consent order).

Re: TKO Ins. Agency, Inc., John E. MacDonald & Son Ins. Agency, Joel Finkel, Milton Finn, Gwendolyn James, and David Winn.

Re: Bel-Mar Ins. Agency, Inc. and Marjorie Feinberg (consent order).

Re: Appeal of Lawrence H. Fisher, under Section 101B, Chapter 175.

Re: Norman B. Harrison.

Re: Louis A. Wolpert and Wolpert Ins. Agency Inc. (consent order).

Re: James Ford (consent order).

Re: Andrew C. Maddaleni.

Re: Life Assurance Co. of Pennsylvania.

Re: Ronald C. MacKenzie.

Re: Cooke & Currie Ins., Ltd. v. Massachusetts Motor Vehicle Reinsurance Facility.

Re: American Manufacturers Mutual Ins. Co. v. Massachusetts Motor Vehicle Reinsurance Facility.

Companies

FINANCIAL EXAMINATIONS

Each year, as required by law, the Division of Insurance routinely examines approximately one third of all Massachusetts-based insurance companies, and one third of all retirement systems for Massachusetts public employees.

Companies:

Attleboro Mutual Fire Ins. Co.
Berkshire Mutual Ins. Co.
Boston Mutual Life Ins. Co.
Boston Old Colony Ins. Co.
Fitchburg Mutual Fire Ins. Co.
Hingham Mutual Fire Ins. Co.
Loyal American Life Ins. Co.
Lumber Mutual Ins. Co.
Massachusetts General Life Ins. Co.
Massachusetts Title Ins. Co.
New England Mutual Life Insurance Co.

Retirement systems:

Amesbury
 Arlington
 Bristol County
 Everett
 Fairhaven
 Hampden County
 Hampshire County
 Haverhill
 Hull
 Lawrence
 Lowell
 Marlboro

Melrose
 Milford
 Natick
 Needham
 New Bedford
 Newburyport
 Norwood
 Saugus
 State Employees
 Stoneham
 Worcester
 Worcester County

MARKET CONDUCT EXAMINATIONS

Market conduct examinations, which show how a company operates and how well it treats its policyholders, have traditionally been one part of financial examinations. Since 1977, however, the Division has been examining companies, agencies and brokerages separately with regard to their market conduct.

Companies:

American Family Life Assurance Co.
 American Income Life Ins. Co.
 Liberty Life Assurance Co. of Boston
 Liberty Mutual Fire Ins. Co.
 Liberty Mutual Ins. Co.
 Massachusetts Mutual Life Ins. Co.
 Middlesex Ins. Co.
 Patriot General Ins. Co.
 Patriot General Life Ins. Co.
 Union Fidelity Life Ins. Co.
 Washington National Ins. Co.

Agencies and brokerages:

Abodeely Ins. Agency
 Apollo
 Avenue
 Aztec
 Baker
 Bay Colony
 Beebe, Blakely & Forbes
 Bel-Mar
 Berman
 Berry
 Black

Bodner
 Bradley, Estes & Strumski
 Brennan
 Brighton
 Brookfield
 Buckley
 C & C Ins. Services of Mass. Inc.
 Cadell & Byers
 Cain
 Campagna
 Carberry & Conlin

Carrick	Mallozzi
Central Square	Marchione
Chickering	Marquis
Chmura	Mattei
Claremont	McCormick & Toole
Clark-Prout	McDonald & Sons
Columbus	McDuffie
Conro	McFadden
Coordinated Financial Planning Inc.	McGunnigle
Creese	McQueen
Danca	Medford Square
Davis, Davis and Moody	Merrill
Dekel	Metro
Domingos	Mid-State
Donohue	Mirabito
Dooley	Monte
Dowling	Mottard
E & G	Munro
Economy	Nicholls Insurance Inc.
Finn	Norwood
First Service Insurance Inc.	O'Brien
Fitzgerald	Oster
Flynn	Pace
Ford	Pantos
Forti	Patriot
Friedman Bros.	Peterson
Froebel	Plainville
Gallagher	Porter Square
Gallant & Brock	Potter
Georgetown	R & S
Gold & Son	Rapallo
Graham	Richardson
Great Northern	Riverside
Greater Lawrence	Roche
Green, Isenberg, Small	Rocco Rose
Haberman	Rock
Heritage	Rodrigues Co.
Holman	Rutstein
Independence	Ryan
Ivester	Savin Hill
Kaplansky	Scribner
Kimball	Shire City
Koritz	Shirley
Kunevich & Lau	Simons Company Inc.
Latanzi	Slovin
Levenbaum	Snapper/Leader
Leone	Sokoll & Lowenthal
MacShawson	Stadium
Main Street	Stevens
Malcolm & Parsons	Stevenson
F.L. Malcolm	J. P. Sullivan

W. F. Sullivan
 Sweeny & Sons
 Tag International
 Tamarack
 Thornton
 Tocci
 Town Line
 TKO
 TKO of Holyoke
 Traver
 Tully
 United Brokers Inc.

Vellucci
 Walker
 Waxman
 Wells
 West
 Wilde
 Willis
 Wise
 Woods
 Young
 Zaharris

Motor Clubs:

Cross Country Motor Club Inc.
 Motor Club of America
 New England Motor Club Inc.
 Universal Motor Club Inc.

CHANGES

These companies were admitted in 1978 to do business in Massachusetts; the state of incorporation is shown in parentheses after the company name:

American Re-Insurance Co. (Delaware)
 Atlas Assurance Co. of America (New York)
 Cumberland Life Ins. Co. (Tennessee)
 Eagle Star Ins. Co. of America (New York)
 Fort Dearborn Life Ins. Co. (Illinois)
 Guarantee Ins. Co. (Texas)
 The Hartford Life Ins. Co. of Connecticut (Connecticut)
 Heritage Life Ins. Co. (Arizona)
 Kemper Investors Life Ins. Co. (California)
 Monumental Life Ins. Co. (Maryland)
 Philadelphia Life Ins. Co. (Pennsylvania)
 Proprietors' Ins. Co. (Ohio)
 Prudential Reinsurance Co. (Delaware)
 St. Paul Life Ins. Co. (Minnesota)
 Stewart Title Guaranty Co. (Texas)

These companies withdrew from writing insurance in Massachusetts; the state of incorporation is shown in parentheses after the company name:

Georgia International Life Ins. Co. (Georgia)
 Indianapolis Life Ins. Co. (Indiana)
 Integrity National Life Ins. Co. (Pennsylvania)

National Travelers Ins. Co. (Iowa)
 Security Mutual Ins. Co. (Illinois)
 White Cross Ins. Co., Ltd. (England)

These companies were renamed; the state of incorporation is shown in parentheses for both the old and the new names:

Allstate Fire Ins. Co. (Illinois) is now Northbrook Property and Casualty Ins. Co. (Illinois).

American Eagle Life Ins. Co. (New Jersey) is now Crum & Forster Life Ins. Co. (New Jersey).

First Investment Annuity Co. of America (Pennsylvania) is now Investors Life Ins. Co. of North America (Pennsylvania).

Gambles Ins. Co. (Minnesota) is now John Alden Ins. Co. (Minnesota).

Investors Mortgage Ins. Co. (Illinois) is now Tiger Investors Mortgage Ins. Co. (Illinois).

Northbrook Ins. Co. (Illinois) is now Northbrook Excess and Surplus Ins. Co. (Illinois).

Old Security Casualty Ins. Co. (Missouri) is now American Continental Ins. Co. (Missouri).

Providence Washington Life Ins. Co. (Rhode Island) is now NN Providence Life Ins. Co. (Rhode Island).

Volkswagen Ins. Co. (Arkansas) is now Wausau Underwriters Ins. Co. (Arkansas).

Loyal Protective Life Ins. Co. (Massachusetts) ceased to be licensed when it merged into Massachusetts General Life Ins. Co. (Massachusetts).

For more extensive data on any insurance company that operates in Massachusetts, the reader should consult the proper volume of Best's Insurance Reports, or examine the company's financial statement on file with the Massachusetts Division of Insurance.

RECEIVERSHIPS

Associated Merchants Mutual Insurance Company--Joseph F. Ciccio, as receiver for the insurance company, continued to retain in his possession assets of the insurance company. During 1978, the Massachusetts Involuntary Fund, pursuant to Chapter 175D, continued with the adjustment and disposition of claims by policyholders. Some of the claims are disputed and are pending in court. The Fund has not disposed of all known claims at the present time.

On October 19, 1978, the Supreme Judicial Court authorized the sale of all furniture and fixtures of the company. After selling the furniture and fixtures, the receiver vacated the premises occupied by the insurance company and removed the records of the company to a storage area.

Century Fire and Marine Insurance Company--In 1978, the receivership continued as set up in 1977, with Deputy Commissioner Keith R. Rodney as receiver and Philip A. Mason as counsel to the receiver. At the request of the receiver, the CPA firm of Peat, Marwick, Mitchell and Co. assisted counsel in organizing, categorizing and listing information concerning potential claimants of Century. Also, from information obtained from Century and receivership records, Peat, Marwick, Mitchell and Co. prepared, without audit, a summary listing of possible assets and liabilities as of April 30, 1978: Assets and Possible Assets - \$1,252,700; Liabilities and Possible Liabilities - \$4,130,600. The records and effects of the company are held in the receiver's custody and control at the counsel's office, Government Center, Boston, Massachusetts, 02108.

Empire Mutual Insurance Company--Deputy Commissioner Keith R. Rodney, as temporary ancillary receiver, continued to retain in his possession the assets of the insurance company. During 1978, the Massachusetts Insolvency Fund, pursuant to Chapter 175D, continued with the adjustment and disposition of claims by policyholders. The Fund has not yet disposed of all known claims.

Puritan Marine Insurance Underwriters Corporation--In 1978, the receivership continued as set up in 1976, with Deputy Commissioner Keith R. Rodney as receiver and Michael S. Field as counsel to the receiver. Counsel has continued marshalling the assets and determining the liabilities. The property, records and effects of the company remain at the offices of the counsel.

Rockland Mutual Insurance Company--Claims, priority and general, in an amount in excess of \$8 million have been submitted to the receiver, Commissioner James M. Stone. Through his counsel, Edward T. Dangel, III, the receiver has analyzed all of the claims filed and is prepared to report his recommendations to the Supreme Judicial Court. In addition, the receiver is litigating and collecting various sums alleged to be due the receivership. As of December 31, 1978, the cash on hand was \$26,000; the value of common stock, bonds and treasury notes, at cost, was approximately \$250,000. The property, records and effects of the company are held in the receiver's custody and control at 112 Water Street, Boston, Massachusetts, 02109.

Suffolk Insurance Company--Receiver Joseph F. Ciccio, with the assistance of counsel, continued disposing of insurance and general creditor claims against the company. On September 22, 1978, the Supreme Judicial Court authorized the refunding of premiums to certain policyholders.

Summit Insurance Company of New York, Inc.--In 1978, the ancillary receivership continued as set up in 1975, with Deputy Commissioner Keith R. Rodney as ancillary receiver and Edmund E. Fleming as counsel to the ancillary receiver. The receiver continued to pursue and mar-

shal the assets of Summit located in the Commonwealth. Several law suits were in progress, either being prosecuted for the purpose of marshalling assets, or defended on claims. Claims against the estate of Summit which have been filed in Massachusetts were being investigated and processed.

LIFE VALUATIONS

Each year, the Division of Insurance must assign a value to the reserves of Massachusetts-based life insurance companies. In 1978, the fee for this valuation amounted to \$821,103.17. The fee is set according to this formula: for each \$1000 of life insurance in force on December 31, a fee of four mills is charged; for each annuity contract or supplementary contract with life contingencies, a fee of four cents is charged.